

# House Study Bill 786

HOUSE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL BY  
CHAIRPERSON SHOMSHOR)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

## A BILL FOR

1 An Act relating to local taxes and fees by providing a rate for  
2 and use of city franchise fees, making certain city franchise  
3 fees legal, providing for the creation of sales tax increment  
4 financing districts by cities, and increasing the maximum rate  
5 for local hotel and motel taxes, and including an effective  
6 date provision.  
7 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:  
8 TLSB 6468YC 82  
9 mg/sc/14

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1 1 DIVISION I  
1 2 CITY FRANCHISE FEES  
1 3 Section 1. Section 364.2, subsection 4, paragraph f, Code  
1 4 Supplement 2007, is amended to read as follows:  
1 5 f. A franchise fee assessed by a city may be based upon a  
1 6 percentage of gross revenues generated from sales of the  
1 7 franchisee within the city not to exceed five percent, without  
1 8 regard to the city's cost of inspecting, supervising, and  
1 9 otherwise regulating the franchise. Franchise fees collected  
1 10 may be credited to the city general fund and used for city  
1 11 general fund purposes. If a city franchise fee is assessed to  
1 12 customers of a franchise, the fee shall not be assessed to the  
1 13 city as a customer. Before a city adopts or amends a  
1 14 franchise fee rate ordinance or franchise ordinance to  
1 15 increase the percentage rate at which franchise fees are  
1 16 assessed, a revenue purpose statement shall be prepared  
1 17 specifying the purpose or purposes for which the revenue  
1 18 collected from the increased rate will be expended. If  
1 19 property tax relief is listed as a purpose, the revenue  
1 20 purpose statement shall also include information regarding the  
1 21 amount of the property tax relief to be provided with revenue  
1 22 collected from the increased rate. The revenue purpose  
1 23 statement shall be published as provided in section 362.3.  
1 24 Sec. 2. CERTAIN FRANCHISE FEES DECLARED LEGAL. To the  
1 25 extent that any amount of franchise fees assessed by and paid  
1 26 to a city prior to the effective date of this division of this  
1 27 Act, pursuant to a franchise agreement between a city and any  
1 28 person to erect, maintain, and operate plants and systems for  
1 29 electric light and power, heating, telegraph, cable  
1 30 television, district telegraph and alarm, motor bus, trolley  
1 31 bus, street railway or other public transit, waterworks, or  
1 32 gasworks, exceeds the city's reasonable costs of inspecting,  
1 33 supervising, and otherwise regulating the franchise, such  
1 34 amount is deemed and declared to be authorized and legally  
1 35 assessed by and paid to the city.  
2 1 Sec. 3. EFFECTIVE DATE. This division of this Act, being  
2 2 deemed of immediate importance, takes effect upon enactment.  
2 3 DIVISION II  
2 4 SALES TAX INCREMENT FINANCING DISTRICTS  
2 5 Sec. 4. Section 423B.1, subsection 6, Code Supplement  
2 6 2007, is amended by adding the following new paragraph:  
2 7 NEW PARAGRAPH. c. Notwithstanding any other provision in  
2 8 this section, a change in use of the increased local sales and  
2 9 services tax revenues for purposes of a sales tax increment  
2 10 financing district pursuant to section 423B.10 does not  
2 11 require an election.  
2 12 Sec. 5. Section 423B.9, subsection 2, Code 2007, is  
2 13 amended to read as follows:  
2 14 2. An issuer of public bonds which is a recipient of

2 15 revenues from a local option sales and services tax imposed  
2 16 pursuant to this chapter may issue bonds in anticipation of  
2 17 the collection of one or more designated portions of the local  
2 18 option sales and services tax and may pledge irrevocably an  
2 19 amount of the revenue derived from the designated portions for  
2 20 each of the years the bonds remain outstanding to the payment  
2 21 of the bonds. Bonds may be issued ~~only~~ for one or more of the  
2 22 purposes set forth on the ballot proposition concerning the  
2 23 imposition of the local option sales and services tax or for  
2 24 purposes of a sales tax increment financing district pursuant  
2 25 to section 423B.10, except bonds shall not be issued which are  
2 26 payable from that portion of tax revenues designated for  
2 27 property tax relief. The bonds may be issued in accordance  
2 28 with the procedures set forth in either subsection 3 or 4.  
2 29 Sec. 6. NEW SECTION. 423B.10 SALES TAX INCREMENT  
2 30 FINANCING DISTRICTS.  
2 31 1. For purposes of this section, unless the context  
2 32 otherwise requires:  
2 33 a. "Base year" means the fiscal year during which the  
2 34 designation by ordinance of a sales tax increment financing  
2 35 district is made.  
3 1 b. "District" means a sales tax increment financing  
3 2 district established pursuant to subsection 2.  
3 3 c. "Eligible city" means a city in which a local sales and  
3 4 services tax imposed by the county applies or a city described  
3 5 in section 423B.1, subsection 2, paragraph "a".  
3 6 d. "Project" means an athletic, cultural, or entertainment  
3 7 facility or complex in which the owners or operators make an  
3 8 actual investment of at least five million dollars. "Project"  
3 9 does not include any gaming establishment or facility and does  
3 10 not include a retail mall or complex. However, this does not  
3 11 preclude a retail specialty shop or business from being  
3 12 included as part of a project.  
3 13 e. "Retail establishment" means a business operated by a  
3 14 retailer as defined in section 423.1.  
3 15 2. An eligible city may by ordinance of the city council  
3 16 establish a sales tax increment financing district for the  
3 17 purpose of using the increased local sales and services tax  
3 18 revenues received by it under this chapter which are  
3 19 attributable to retail establishments in the district to repay  
3 20 any loans, advances, indebtedness, or bonds used to assist in  
3 21 the development, redevelopment, improvement, or rehabilitation  
3 22 of a project located within such district. The increased  
3 23 revenues to be used for the project shall be deposited into a  
3 24 special fund to be established for the purpose of repaying the  
3 25 loans, advances, indebtedness, or bonds.  
3 26 3. a. To determine the revenue increase for purposes of  
3 27 subsection 2, a base year revenue amount shall be calculated  
3 28 by the department of revenue as follows:  
3 29 (1) Determine the amount of local sales and services tax  
3 30 revenue collected from retail establishments located in the  
3 31 area comprising the district during the base year.  
3 32 (2) Determine the dollar amount of the tax revenues  
3 33 collected, as described in subparagraph (1), which is  
3 34 distributed to the city during the base year. This is the  
3 35 base year revenue amount.  
4 1 b. A current year revenue amount is determined for each  
4 2 fiscal year following the base year in the manner specified in  
4 3 paragraph "a".  
4 4 c. The excess of the amount determined in paragraph "b"  
4 5 over the base year revenue amount determined in paragraph "a"  
4 6 is the increase in the eligible city's revenues that are to be  
4 7 deposited in the special fund established pursuant to  
4 8 subsection 2. However, if any portion of these increased  
4 9 revenues has been previously irrevocably pledged to pay bonds  
4 10 issued pursuant to section 423B.9 for any purpose other than  
4 11 the purpose of the district, such portion shall not be  
4 12 deposited into the special fund.  
4 13 4. An eligible city that has designated a sales tax  
4 14 increment financing district as provided in subsection 2 may  
4 15 apply to the department of economic development to receive a  
4 16 portion of the amount of the state sales tax revenues  
4 17 collected pursuant to chapter 423, subchapter II, during a  
4 18 fiscal year from retail establishments located in such  
4 19 district which is in excess of the amount of such revenues  
4 20 collected by the state during the base year. The department  
4 21 of economic development shall establish by rule criteria for  
4 22 determining if it will enter into an agreement with an  
4 23 eligible city. These criteria shall include but not be  
4 24 limited to all of the following:  
4 25 a. The project is not replacing an athletic, cultural, or

4 26 entertainment facility or complex located in another part of  
4 27 the city.  
4 28 b. The extent to which the project will bring out-of-state  
4 29 residents to the city and the county.  
4 30 c. The extent to which the project will have an adverse  
4 31 effect on surrounding cities and counties.  
4 32 d. The district is a well-defined compact area where the  
4 33 majority of the commercial property contained in the district  
4 34 is benefited by the project.

4 35 e. The total amount of investment to be made in the  
5 1 project and the amounts to be provided by private investors,  
5 2 the city, and the state.

5 3 f. The agreement shall be for a period not to exceed ten  
5 4 fiscal years or for attainment of a specific dollar amount,  
5 5 whichever occurs first.

5 6 5. The payment of any portion of the amount of state sales  
5 7 tax revenues collected during a fiscal year under subsection 4  
5 8 is contingent upon an appropriation by the general assembly  
5 9 specifically for payment of such revenue increase, and any  
5 10 agreement entered into between the department of economic  
5 11 development and an eligible city shall contain a statement as  
5 12 to this contingency.

5 13 6. All moneys received by an eligible city from state  
5 14 sales tax revenue collections shall be deposited into the  
5 15 special fund established pursuant to subsection 2.

5 16 7. For purposes of this section, the eligible city shall  
5 17 assist the department of revenue in identifying retail  
5 18 establishments in the district that are collecting the local  
5 19 sales and services tax and state sales tax. This process  
5 20 shall be ongoing until the district is dissolved.

5 21 Sec. 7. Section 423E.5, unnumbered paragraph 2, Code 2007,  
5 22 is amended to read as follows:

5 23 A school district in which a local option sales tax for  
5 24 school infrastructure purposes has been imposed shall be  
5 25 authorized to enter into a chapter 28E agreement with one or  
5 26 more cities or a county whose boundaries encompass all or a  
5 27 part of the area of the school district. A city or cities  
5 28 entering into a chapter 28E agreement shall be authorized to  
5 29 expend its designated portion of the local option sales and  
5 30 services tax revenues for any valid purpose permitted in this  
5 31 chapter or authorized by the governing body of the city.

5 32 ~~including the use of the revenues for purposes of a sales tax~~  
5 33 ~~increment financing district under section 423B.10.~~ A county

5 34 entering into a chapter 28E agreement with a school district  
5 35 in which a local option sales tax for school infrastructure  
6 1 purposes has been imposed shall be authorized to expend its  
6 2 designated portion of the local option sales and services tax  
6 3 revenues to provide property tax relief within the boundaries  
6 4 of the school district located in the county. A school  
6 5 district where a local option sales and services tax is  
6 6 imposed is also authorized to enter into a chapter 28E  
6 7 agreement with another school district, a community college,  
6 8 or an area education agency which is located partially or  
6 9 entirely in or is contiguous to the county where the tax is  
6 10 imposed. The school district or community college shall only  
6 11 expend its designated portion of the local option sales and  
6 12 services tax for infrastructure purposes. The area education  
6 13 agency shall only expend its designated portion of the local  
6 14 option school infrastructure sales tax for infrastructure and  
6 15 maintenance purposes.

6 16 DIVISION III  
6 17 LOCAL HOTEL/MOTEL TAX

6 18 Sec. 8. Section 423A.4, subsection 1, Code Supplement  
6 19 2007, is amended to read as follows:

6 20 1. A city or county may impose by ordinance of the city  
6 21 council or by resolution of the board of supervisors a hotel  
6 22 and motel tax, at a rate not to exceed ~~seven~~ nine percent,  
6 23 which shall be imposed in increments of one or more full  
6 24 percentage points upon the sales price from the renting of  
6 25 lodging. The tax when imposed by a city shall apply only  
6 26 within the corporate boundaries of that city and when imposed  
6 27 by a county shall apply only outside incorporated areas within  
6 28 that county.

6 29 EXPLANATION

6 30 This bill makes changes relating to taxes and fees of local  
6 31 jurisdictions. The bill is organized into various divisions.

6 32 CITY FRANCHISE FEES == This division provides that the  
6 33 amount of a city franchise fee may be based upon a percentage  
6 34 of gross revenues generated from sales of the franchisee  
6 35 within the city not to exceed 5 percent without regard to the  
7 1 city's cost of regulating the franchise. The bill allows

7 2 franchise fees collected by the city to be credited to the  
7 3 city general fund and used for city general fund purposes.  
7 4 The division requires a city to prepare a revenue purpose  
7 5 statement before the city adopts or amends a franchise fee  
7 6 rate ordinance or a franchise ordinance to increase the  
7 7 percentage rate of franchise fees assessed. The division  
7 8 requires the revenue purpose statement to specify how the  
7 9 increase in franchise fees will be expended, including  
7 10 information on the amount of property tax relief that will be  
7 11 provided if property tax relief is listed as a purpose. The  
7 12 division also requires each revenue purpose statement to be  
7 13 published in a newspaper of general circulation in the city  
7 14 before official action is taken on the fee rate increase.  
7 15 The division declares that franchise fees assessed by and  
7 16 paid to a city prior to the effective date of the division,  
7 17 that may exceed the city's reasonable costs of inspecting,  
7 18 supervising, and otherwise regulating the franchise are  
7 19 authorized and legal.  
7 20 This division takes effect upon enactment.  
7 21 SALES TAX INCREMENT FINANCING DISTRICTS == This division  
7 22 authorizes a city with a local option sales and services tax  
7 23 to establish by ordinance a sales tax increment financing  
7 24 district for the purpose of dedicating and using the increase  
7 25 in the local sales and services tax revenues it receives from  
7 26 retail establishments in the district to pay the loans,  
7 27 advances, indebtedness, and bonds used to assist in the  
7 28 development, redevelopment, improvement, or rehabilitation of  
7 29 an athletic, cultural, or entertainment facility or complex  
7 30 project located within such district. Dedicating such  
7 31 increased revenues does not require an election. The owners  
7 32 or operators of the project must make an actual investment of  
7 33 at least \$5 million and the project cannot include a gaming  
7 34 establishment or facility or a retail mall or complex.  
7 35 The division also allows the city to enter into an  
8 1 agreement with the department of economic development to  
8 2 receive assistance for all or a portion of the increase in  
8 3 state sales tax revenues collected by retail establishments in  
8 4 the district. This state assistance is subject to  
8 5 appropriation by the general assembly. The department would  
8 6 establish criteria for entering into such an agreement, which  
8 7 criteria would include the extent to which the project would  
8 8 bring in nonresidents of the state and would affect  
8 9 surrounding communities, the amount of private and public  
8 10 investment being made, the compactness of the district, and  
8 11 the requirement that the project is not replacing a similar  
8 12 facility or complex in the city. The agreement would be for a  
8 13 period of 10 years or for a specified amount of state  
8 14 assistance, whichever occurs first.  
8 15 The division provides that a city may use revenues that it  
8 16 may receive from a local sales and services tax for school  
8 17 infrastructure purposes for purposes of the city's sales tax  
8 18 increment financing district.  
8 19 The base year revenue amount for determining the increase  
8 20 in tax revenues is the amount of tax revenues collected and  
8 21 distributed to the city from retail establishments in the  
8 22 district area during the fiscal year ending after the city has  
8 23 established the district. However, any portion of that  
8 24 increase which has previously been pledged for another purpose  
8 25 is not considered part of the increase that may be used for  
8 26 the purposes of the district.  
8 27 LOCAL HOTEL/MOTEL TAX == This division increases the  
8 28 maximum local hotel and motel tax rate from the present 7  
8 29 percent to 9 percent. Present law requires an election to  
8 30 increase the tax rate.  
8 31 LSB 6468YC 82  
8 32 mg/sc/14